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Iran-Iraq: Renewed Rivalry (U)

An Intelligence Assessment

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July 1991

Iran-Iraq: Renewed Rivalry (U)

Key Judgments

*Information available
as of 1 July 1991
was used in this report.*

The defeat of Iraq and attendant destruction to its military and economic infrastructure by US-led coalition forces have dramatically altered the balance of power between Iran and Iraq. The reduction in size of Iraq's military machine has, at least temporarily, ended its military ascendancy in the Persian Gulf and established a rough strategic parity between Baghdad and Tehran. Iran, formerly isolated and overshadowed by Baghdad's victory in the Iran-Iraq war, now has more room to maneuver and perceives opportunities to regain what it believes is its traditional preeminence in the Persian Gulf. (S, NF)

Tehran probably will capitalize on its growing political influence and employ a primarily diplomatic strategy to consolidate its renewed regional prominence. President Rafsanjani has announced a program aimed at fostering regional security and cooperation and is attempting to expand Iran's ties to the Gulf Arabs and to the West. Iranian leaders probably view President Saddam Husayn as the main threat to their efforts to reshape regional alignments and have embraced the late Ayatollah Khomeini's goal of ousting Saddam from power. With the failure of the Shia and Kurdish revolts in Iraq, Tehran seems increasingly prepared to follow a policy of containing Iraq in hopes that UN economic and diplomatic sanctions will bring Saddam down. (S, NF)

Iraq has not abandoned its regional ambitions, but the immediate need to devote its resources to reconstruction, reestablishing domestic stability, securing its borders, and repairing severed political and economic ties to the international community restricts its policy options. Saddam is likely to employ various tactics—including political accommodation, cooperation, and, as those fail, subversion, violence, and diplomatic pressure—to keep Iran at bay while he works to tip the balance back in his favor. (S, NF)

Tehran and Baghdad have dropped almost all pretense of seeking peace, ending the short-lived rapprochement that occurred in the immediate aftermath of Iraq's invasion of Kuwait in August 1990. Disputes stemming from the Iran-Iraq war—most notably sovereignty over the Shatt al Arab waterway—and from the Gulf war—such as Iran's continued impoundment of Iraqi aircraft—remain unresolved and threaten to increase tension between them. (S, NF)


Clashes between Iraqi and Iranian troops along the border are likely to intensify, although neither Iran nor Iraq will pose a major offensive military threat to the other in the near term. Even after its losses in Operation Desert Storm, Iraq has more tanks, armored vehicles, and combat aircraft than does Iran. Iran's Western-trained pilots, however, have always enjoyed a qualitative advantage over their Iraqi opponents, and they almost certainly have been emboldened by the Iraqi Air Force's dismal performance against coalition forces. The rearming of the Iranian Air Force with modern Soviet aircraft [REDACTED] combined with its continued emphasis on aggressive training probably would enable Iran to achieve a moderate level of air superiority against Iraq in a future conflict. (S-NF)

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Domestic economic weakness and the lack of a serious offensive military capability in both Iran and Iraq probably will prevent either from intentionally seeking to re-ignite the Iran-Iraq war over the short term. The danger of an accidental war—a fairly minor incident between Iran and Iraq escalating out of control—has increased over the past year and is likely to be a chronic threat to stability in the Persian Gulf. The ill-planned use of strong-arm tactics by either Iran or Iraq could backfire, and, given the numerous outstanding disputes between them, the risk of miscalculation will be high. (S-NF)

The narrowed gap between the military strength of Iran and that of Iraq gives additional impetus to both governments' rearmament programs. Tehran continues to pursue development of its missile and unconventional weapons programs as the cheapest way to create a deterrent capability while it plans to redress the serious shortfalls in its conventional forces. Saddam almost certainly accords a high priority to rebuilding Iraq's military might, with the highest priority likely to be the resurrection of its missile and nonconventional weapons programs. Baghdad will not willingly surrender all of its proscribed weapons in accordance with the terms of UN Resolution 687 unless directly confronted by UN inspectors. Financial constraints and, for Iraq, UN sanctions will slow the pace of rearmament in both countries, although the competition between the two countries will continue to complicate efforts to implement regional arms control. (S-NF)

Contents

	Page
Key Judgments	iii
	vii
Lingering Disputes	1
New Problems	2
The Hostage Air Force	2
Support for Insurgent Forces	2
Border Clashes	2
Iraqi Refugees	3
The New Military Balance—A More Level Playing Field	3
Iran: Facing a Less Daunting Enemy	3
Iraq: Still a Tough Opponent	4
Conditions Favor a Continued Arms Race	5
The New Economic Balance—Mutual Constraints	7
Iran: Increasing Domestic Pressures on the Economy	7
Iraq: Daunting Economic Challenges Ahead	8
The New Political Balance in the Gulf—Iran's Advantage	9
Regional and International Influence	9
Domestic Support	10
Implications of the New Balance	10
Iran's Opportunity	11
The View From Baghdad	13
Tensions Along the Border	15
Prospects for War	15
Impact on Regional and Western Interests	17

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Iran-Iraq: Renewed Rivalry (U)

The massive defeat of Iraq by US-led coalition forces during the Gulf war has resulted in a dramatic change in the balance of power between Iran and Iraq. One year ago Iran was on the defensive, seeking to repair the damage to its regional standing suffered as a result of its forced acceptance of a UN cease-fire with Iraq in 1988. Tehran, which faced a rival many times stronger in every military category, was cautiously trying to broaden its diplomatic ties to increase its leverage against Iraq and to gain access to sorely needed financing for reconstruction. After Operation Desert Storm, however, the two countries' positions essentially are reversed. Iraq is isolated, and Iran's diplomatic relations are expanding; much of Iraq's military advantage over Iran is gone; and Tehran, rather than Baghdad, sees political opportunities to shape the regional order in its favor. (CONF)

Although Iran and Iraq made superficial progress in improving relations before and during the Iraqi occupation of Kuwait, the renewed rivalry between the two countries has revealed the shallowness of the rapprochement. Within two weeks of the invasion last August, Iraqi President Saddam Husayn, in a bid to secure Iraq's eastern flank, acceded to almost all of Iran's peace demands. Saddam withdrew his forces from the small segments of Iranian territory held since 1988, returned Iranian prisoners of war, and publicly expressed his acceptance of the Algiers accord of 1975 as a basis for delimiting Iraq's border with Iran.¹ In return, Tehran remained publicly neutral but tolerated significant cross-border smuggling of foodstuffs and other goods in violation of the UN

¹ The Algiers accord was signed between the former Pahlavi monarchy and Saddam Husayn in 1975. It established the border between Iran and Iraq at the thalweg, or midpoint of the navigable channel, of the Shatt al Arab waterway—a concession by Iraq, which for years had claimed control over the entire river. In return Iran ceased its support for Kurdish insurgents who were threatening to destabilize the Iraqi regime. Saddam abrogated the accord upon his invasion of Iran in September 1980, arguing that Iranian subversion among Iraqi Shia Muslims represented a violation of the treaty. Since that time, the restoration of the accord has been an important goal of Iranian policy. (CONF)

embargo of Iraq. Iran, however, consistently opposed Iraq's occupation of Kuwait and rebuffed Iraqi efforts to export oil or import arms via Iran. (CONF)

Since the end of the Gulf war, Iran and Iraq have abandoned almost all pretense of searching for peace and have resumed active jockeying for political advantage. Much as Baghdad perceived Iran's postrevolutionary disarray in 1980 as an opportunity to establish Iraq as the dominant power in the Persian Gulf, Tehran now sees Iraq's defeat as an opportunity to regain regional primacy. The devastation wrought by a decade of war and mismanagement in Iran and Iraq will limit their capabilities and taste for renewed war, but the collision of both countries' interests and policies is likely to be a continuing source of regional tension. (CONF)

Lingering Disputes

Despite Iraq's many concessions, the rapprochement of August 1990 failed to resolve several contentious issues related to the Iran-Iraq war that are a source of continuing friction. These issues include:

- *Demarcation of the Shatt al Arab.* Saddam never explicitly accepted all provisions of the Algiers accord, and no formal diplomatic instrument was signed reaffirming the validity of the 1975 treaty. Tehran continues to seek such a formal acceptance, while Saddam hopes to avoid the humiliation of openly ceding half the waterway to Iran—as called for in the treaty—and losing control of Iraq's main access to the sea.
- *Exchange of prisoners of war.* By January 1991, Iraq had returned virtually all of the 37,000 Iranian prisoners it held, but Tehran had not repatriated all of the Iraqi prisoners in its custody.

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[REDACTED] Saddam admitted publicly in May that Iraq lacked the means to compel Tehran to release them.

- **Reparations.** Tehran contends Iraq owes it reparations for the damage caused in the Iran-Iraq war, and the government often reiterates that the "rights of the Iranian nation" must be "vindicated." In late March, the *Tehran Times*—which represents the views of President Rafsanjani—estimated that Iraq owes Iran \$600 billion in war reparations and asserted that Iran's claims should be paid before those of Kuwait. (S, NF)

New Problems

In addition to outstanding issues from the Iran-Iraq war, the Gulf war spawned new disputes that will further impede improvements in Iran-Iraq relations. This new round of problems coincides with the withdrawal of the UN Iran-Iraq Military Observer Group, which had supervised the cease-fire along the border for more than two years. (S, NF)

The Hostage Air Force. Tehran's holding of 148 Iraqi military and civilian aircraft—worth at least \$3 billion and including nearly 40 percent of Iraq's most modern combat aircraft—that originally flew to Iran for safehaven in January 1991 illustrates the reversion of the Iran-Iraq relationship to one of antagonism. Press reports indicate that by mid-April Baghdad had asked Tehran to return Iraqi aircraft, but Iran has not complied.

[REDACTED] Press reports indicate Iran ignored earlier Iraqi attempts to gain the release of some of the planes.

[REDACTED] Although Baghdad has acknowledged that it sent 148 planes to Iran, Iranian officials claim they hold only 22 Iraqi aircraft. (S, NF)

Support for Insurgent Forces. Iran has provided support for Iraqi rebels.

[REDACTED]

Iranian assistance probably accounts for much of the improvement in the tactics and coordination of attacks on Iraqi units in southeastern Iraq noted since late March.

In response, Baghdad has encouraged its force of Iranian dissidents—the Mojahedin-e Khalq—to undertake operations against Iran.

[REDACTED] Iranian press reports claim Mojahedin fighters captured by Iranian forces were directed by Baghdad to infiltrate into Iran. Baghdad has allowed the Mojahedin to resume radiobroadcasts to Iran—propaganda suspended during the rapprochement.

Border Clashes. Iranian and Iraqi forces have renewed attacks against each other's border positions, signaling a return to the hostile conditions that existed along the border before the Iraqi invasion of Kuwait.

[REDACTED] Several small Iraqi military incursions into Iranian territory probably were meant to signal Tehran that Baghdad would respond to Iranian provocations.

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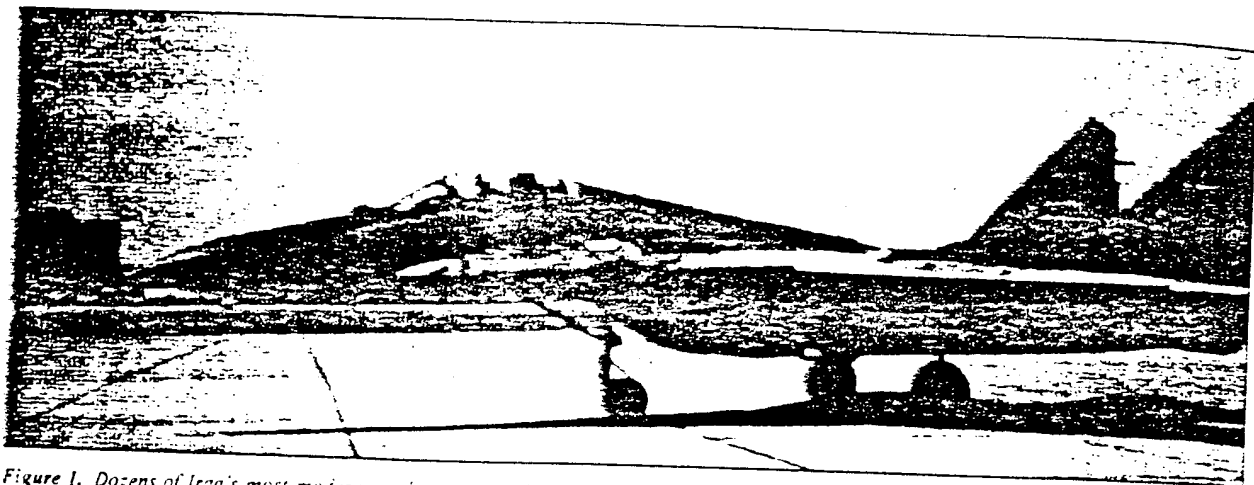


Figure 1. Dozens of Iraq's most modern combat aircraft, like this MiG-29 fighter, remain in Iran, where they sought sanctuary during Operation Desert Storm. (S)

[REDACTED] Iraqi forces have withdrawn from Iranian territory following formal Iranian protests. (S) (NF) (NO) (OC)

Iraqi Refugees. Tehran's leadership increasingly has complained in the United Nations and the press about the overwhelming burden Iran has shouldered because of the influx of more than 1 million Iraqi refugees, primarily from Kurdistan, but also some Shias. Tehran blames the influx on Baghdad's heavyhanded repression of the popular uprisings that followed the Gulf war, and government statements claim Iran was spending \$15 million a day—excluding foreign relief efforts—to support the refugees as of late May 1991. The Iranian financial claim probably is exaggerated, but Tehran may plan to add this figure to the growing list of reparations it is demanding from Baghdad. Moreover, in June Tehran accused Baghdad of planning to force a second exodus of refugees from southern Iraq, a development Iran claimed threatened its national security. (S)

The New Military Balance—A More Level Playing Field

These unresolved old disputes and new frictions are occurring in a strategic environment vastly changed from that of one year ago. The key change is the

reduction in Iraq's military might. Operation Desert Storm destroyed most of Baghdad's offensive military capability, which had given it a large margin of superiority over Iran. The new balance has put Iranian and Iraqi military forces near parity, a goal Tehran almost certainly would have required nearly a decade and billions of dollars to achieve. (S)

Iran: Facing a Less Daunting Enemy. Although the Iranian military remains organizationally weak and poorly equipped, the significant losses inflicted on the Iraqi Army in the Gulf war have increased Tehran's military options against Baghdad:

[REDACTED] Despite Iranian claims that Iraqi forces are massing for an attack on Shia areas, Baghdad, whose Army has approximately 500,000 fewer men than it did one year ago, has had to employ most of its forces to maintain security in key population centers and probably found it necessary to use other assets, like the Mojahedin-e Khalq, to counter Iranian involvement in the uprising.

- Tehran probably can carry out small-scale attacks aimed at securing limited objectives inside Iraq near the border. Before Operation Desert Storm Iraqi

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forces would have moved swiftly to crush such an attempt, but they would now require more time to regroup and redeploy to meet an Iranian attack.

[REDACTED]
[REDACTED] Iranian forces might even be able to hold some territory where terrain features, like mountainous or marshy areas, favor its primarily infantry and artillery force. (S, NF)

Tehran almost certainly can defend itself against a major Iraqi offensive, a capability it has lacked since the late 1980s. Iraq's losses of combat equipment to coalition attacks and insurgent operations have reduced Iraq's ability to mass the overwhelming forces it used in its successful campaigns at the end of the Iran-Iraq war. Iran has also made incremental improvements in its defensive capabilities over the past several years. (S, NF)

In a future conflict, the rearming of the Iranian Air Force, combined with its continued emphasis on aggressive training, probably will enable Iran to achieve a moderate level of air superiority against Iraq. During the Iran-Iraq war the Iranian Air Force enjoyed a decided advantage in training, experience, and confidence despite being outnumbered almost 7:1 by the Iraqi Air Force. Iran's Western-trained Air Force almost certainly has been emboldened by the Iraqi Air Force's dismal performance against the US-led coalition. Tehran has also taken steps to reduce the numerical difference in aircraft inventories between the two countries.

[REDACTED]
[REDACTED] Tehran also may keep most, if not all, of the 115 Iraqi combat aircraft that flew to Iran during Operation Desert Storm. (S, NF)

The Iranian military does not yet present a major offensive threat to Iraq because of its severe shortages of armored vehicles and logistic support capabilities, but it can continue to undertake limited operations into Iraq. Tehran probably can field [REDACTED]

[REDACTED] Although Iran's equipment shortages and logistic problems are a serious impediment to sustained combat operations, the narrowing of the military gap improves Tehran's chances of rebuilding an effective offensive capability in the near term. (S, NF)

Iraq: Still a Tough Opponent. Iraq can field a formidable force against Iran despite the severe losses inflicted by ground and air attacks during the Gulf war.

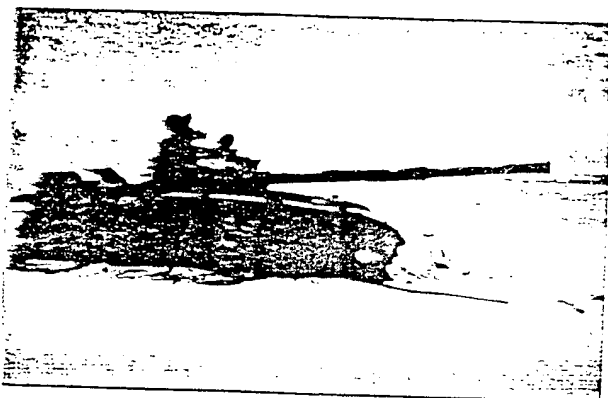
[REDACTED] Despite Iran's exploitation of Iraq's more vulnerable condition—and sometimes threatening statements—internal security has been the focus of the weakened Iraqi military in the immediate aftermath of the war, and Baghdad appears especially concerned with reestablishing security along the Iran-Iraq border. For example, Iraqi Army units moved forcefully in March, April, and May to stop insurgent attacks from Iran, resulting in some clashes with Iranian forces and, apparently, the temporary occupation of some Iranian territory. (S, NF)

Baghdad's forces almost certainly could defend Iraqi territory against a major Iranian offensive.

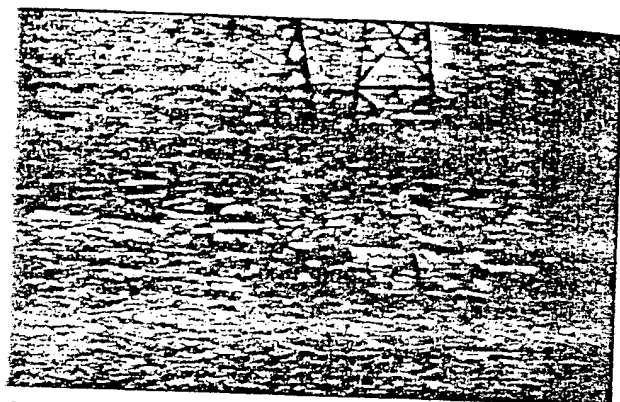
[REDACTED] Although Iraq might experience some tactical defeats in the early stages of a war, Baghdad probably could mass its ground units against Tehran's less mobile forces to stop an Iranian attack. In addition, the better organized, supported, and trained Iraqi ground forces almost certainly would perform better against the Iranians than they did against the superior US-led coalition forces. Iraq's greatest vulnerability probably would be sustaining combat over a period of months because of its serious economic problems and the impact of international sanctions. (S, NF)

Iraq's armed forces probably cannot pose a major offensive threat to Iran for at least several years. Iraq's postwar combat power is less than half of what Baghdad had at the end of the Iran-Iraq war.

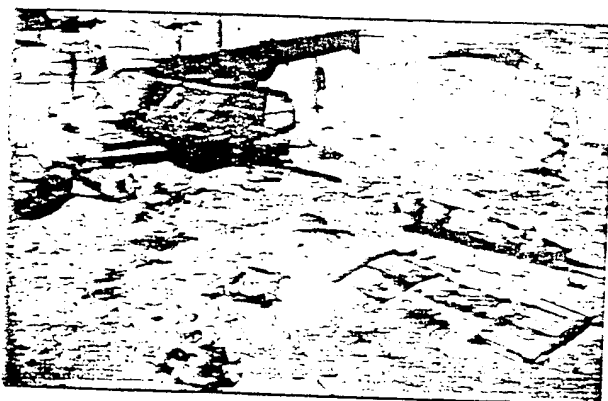
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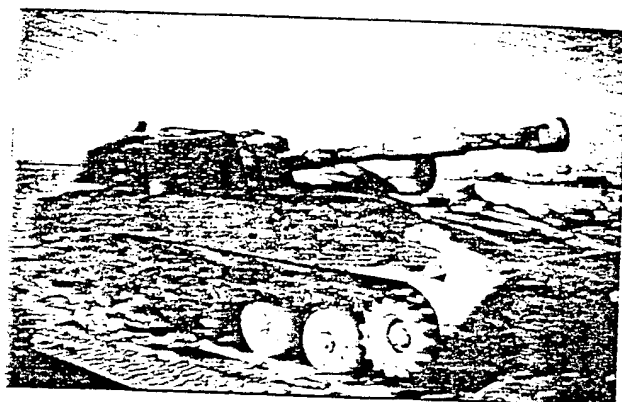
F-72 tank



T-55 tanks along "Highway of Death"



Remains of SA-2 launcher and surface-to-air missile



122-millimeter self-propelled artillery

Figure 2. Iraqi equipment destroyed during Operation Desert Storm.

[REDACTED] Iraq's military also has lost many of the qualitative advantages it had over Iran's armed forces because its arsenal is now dominated by older and less capable weapons not deployed to the Kuwait theater. Restrictions imposed by UN Resolution 637 probably will strip Iraq of many of the missiles and chemical weapons it used to weaken Iranian resolve during the Iran-Iraq war. Continued sanctions at a minimum will slow Iraqi efforts to replace stocks of ammunition, spare parts, other military supplies, and critical transportation assets that would be needed to support major offensive operations. [REDACTED]

Conditions Favor a Continued Arms Race. The narrowed gap in the military strengths of Iran and Iraq gives additional impetus to both governments'

rearmament programs. Since the end of the Iran-Iraq war, Tehran has been intent on rebuilding a force strong enough to defend Iran and to deter Iraqi aggression and has sought to rearm itself from suppliers it considers reliable—primarily Communist countries. [REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]
(S NP)

The expensive task of correcting Iran's tremendous shortfalls in tanks, aircraft, artillery, and spare parts inventories continues, but it is slowed by financial constraints, lethargic Iranian decisionmaking, and the Western arms embargo.² Tehran probably now sees an opportunity to reach full military parity before Baghdad can recover from its defeat and may try to speed its efforts. The resumption of military clashes along the border and Iraqi backing of Mojahedin-e Khalq operations probably will strengthen Tehran's concern over defense of its western border, increasing the pressure to complete its rearmament plans. (S NP)

Tehran is pursuing development of its missile and unconventional weapons programs as the quickest way to create a deterrent capability while it plans to redress the serious shortfalls in its conventional forces.

[REDACTED]
Iran is emphasizing the procurement of chemical precursor and weapons fabrication technology, hoping eventually to develop a chemical warfare capability that rivals Iraq's. (S NP)

We believe Saddam Husayn accords a high priority to rebuilding Iraq's military might. Following the Iran-Iraq war, Iraq had overwhelming superiority over its neighbors but continued to build up its military inventory, focusing on producing weapons of mass destruction and attaining a self-sufficient military-

² Iran continues to operate under the constraint of Western arms embargoes established during the Iran-Iraq war.

[REDACTED]
(S NP)

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[REDACTED]
industrial base. The pressure to rebuild rapidly following Saddam's defeat in Operation Desert Storm probably has been intensified by the drawn-out battle to subdue Iraqi insurgents, which underscored Iraq's new weaknesses in mobility and firepower. Recent improvements in Tehran's armed forces, combined with its meddling in the Iraqi insurgencies and strong military presence facing the Iraqi border, will strengthen Saddam's determination to rebuild. Baghdad has already devoted resources to reconstituting its Republican Guard forces, Saddam's most loyal fighters. (S NP)

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Baghdad's highest priority is likely to be the resurrection of its missile and nonconventional weapons programs, although financial constraints and UN sanctions will make it difficult to achieve. Like Iran, Iraq probably views these systems as necessary to deter its neighbors and cheaper to replace and maintain than a large conventional force. In the near term, Baghdad probably will spend its remaining funds on replacing spares and other supplies lost during Operation Desert Storm. Such purchases would provide immediate improvements in readiness and combat power. (S, NF)

Baghdad has been evading full compliance with UN Resolution 687, which calls for the destruction of Iraq's weapons of mass destruction.

[REDACTED]

(S, NF, OC)

[REDACTED]

(S, NF, OC, WN)

Iran has shown some interest in establishing conventions to control weapons of mass destruction, but its primary goal is to disarm its enemies—particularly Iraq—without limiting its own options.

[REDACTED]

(S, NF, OC)

The New Economic Balance—Mutual Constraints

Economic realities may be the most serious constraint on how far the renewed competition between Baghdad and Tehran will go. Both countries have war-ravaged infrastructures, minimal foreign exchange reserves, and limited ability to increase revenue or attract foreign capital. Moreover, both risk popular unrest should they demand additional sacrifices from war-weary citizens to pursue their rivalry. (S, NF, OC) 1.5(2)(d) 1.6(2)(d)(6)

Iran: Increasing Domestic Pressures on the Economy.

Iran's economic outlook remains grim despite some temporary financial relief during the Gulf war. Iran has limited foreign exchange reserves.

[REDACTED] and its oil export revenues in 1991 will fall well short of Iran's requirements. The public is growing increasingly frustrated with the lack of economic progress after a decade of self-sacrifice and austerity and expects improvements in living conditions. Dissatisfaction among teachers and factory workers over economic conditions led to strikes and demonstrations during the past year, and government workers complain that the rising cost of living has forced them to take two or three jobs to make ends meet.

[REDACTED] Iran's rapidly growing population—currently 57 million with another 1 million people added every seven months—is gradually overwhelming the country's health, housing, education, and transportation sectors. In addition, Iran faces high inflation and serious unemployment, both estimated to be at least 30 percent, and unemployment is likely to continue to rise given the growth rate and age composition of the population. (S, NF, OC)

Tehran probably will seek increased levels of foreign financing to help deal with its financial problems, but many investors are nervous about Iran's political stability and economic outlook and are reluctant to provide large-scale or long-term financing. Nevertheless, Tehran probably hopes the improvement in its international standing—largely a result of its policy during the Gulf war—and its move to restore ties to its Arab neighbors and to West European countries will help it attract foreign capital. (S, NF, OC)

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Tehran's efforts have met with some success. Countries such as Japan, France, Italy, and Germany are beginning to reconsider their economic policies toward Iran, citing Rafsanjani's more realistic economic and political policies as the major impetus for the move. For example, in May 1991:

- Japanese Foreign Minister Nakayama moved to grant loans for development and industrial projects, and Japan plans to send a technical team to Tehran to assess individual projects. [REDACTED]
- France agreed to resolve a longstanding financial dispute, paving the way for future cooperation.
- German Foreign Minister Genscher expressed Bonn's willingness to expand economic cooperation with Iran. The German-Iran Joint Economic Commission held a meeting in June 1991 to discuss future investment, technical cooperation, and expansion of Bonn's export insurance. [REDACTED] (S/NF)

Foreign exchange stringencies, coupled with the increased importance placed on economic development, will limit the military's share of government expenditures. Tehran cut defense spending nearly in half after the Iran-Iraq war, and current levels probably are the minimum needed to continue the slow but steady buildup of the Iranian military. Tehran probably will continue to rely heavily on oil and natural gas barter deals to obtain needed military equipment and will allot scarce hard currency for high-technology items. Cash deals almost certainly will be subject to lengthy negotiations. An increasing demand for oil and gas in Europe, coupled with Tehran's opening to the West, could allow Iran to make additional military purchases. (S/NF)

Iraq: Daunting Economic Challenges Ahead. The Gulf crisis set back Iraq's economic development by decades. In addition to its own civilian reconstruction, which we estimate would cost at least \$22-32 billion if Iraq were to completely repair war-damaged facilities, Baghdad almost certainly will have to pay reparations to Kuwait—preliminary estimates range as high as \$100 billion—as well as compensation to



Figure 3. Iranian President Rafsanjani and Foreign Minister Velayati met with German Foreign Minister Genscher in May 1991, seeking expanded economic cooperation. (S/NF)

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numerous other governments and private entities that are filing claims for damages and overdue debt. Even if UN sanctions are eased and Baghdad is permitted to resume oil exports, Iraq almost certainly will have to allocate a percentage of its oil revenues—which normally account for nearly all of its foreign exchange income—to payment of reparations and other claims. The Iraqi Government's known hard currency reserves of \$4.8 billion—including \$4 billion in banks in the major Western industrial countries—are enough to cover only five or six months of civilian imports at prewar levels, and the regime is unlikely to gain access to these reserves any time soon, even if they are unfrozen, because of the numerous foreign claims against them. [REDACTED]

Iraq will encounter difficulty obtaining the necessary foreign financing, goods, and services to rebuild its economy, especially while UN sanctions remain in place. Baghdad will be unable to secure significant new foreign credit because of its dismal payment record on its estimated \$50 billion in non-Arab debt and the poor prospects for future debt payments. Although the Iraqis can probably rebuild much of their infrastructure with domestic materials and labor, most damaged industrial facilities use foreign—especially Western—equipment and technology. Most foreign governments and companies probably will

[REDACTED]

military reconstruction, will stretch Baghdad's resources to the limit. Iraq will probably focus during the next few years on rebuilding infrastructure that is essential to civilian as well as military reconstruction.

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The New Political Balance in the Gulf—Iran's Advantage

One of the most profound effects of the coalition victory over Iraq was its impact on the relative political influence of Iran and Iraq. The war provided Tehran the opportunity to increase its political capital abroad at Baghdad's expense. Tehran's success is such that officials in several Middle Eastern states

[REDACTED] count Iran as one of the "true victors" of the Gulf conflict.

[REDACTED]

Regional and International Influence. Iraqi aggression against Kuwait improved international perceptions of Iran as Baghdad eclipsed Tehran as the main threat to security in the Persian Gulf. In their public statements Iranian leaders have sought to exploit this change as a vindication of Iran's long war with Iraq.

[REDACTED] Iranian diplomacy during the Gulf crisis sought to establish Iran as a responsible member of the international community and boost its standing in the West, with the Soviet Union, and in the region.

[REDACTED] this strategy was generally successful. (C&NF)

[REDACTED]

refuse to participate in Baghdad's reconstruction any time soon. Even after the embargo is lifted, they are likely to hesitate to play a role because of doubts about Iraq's ability to pay and political stability. (S&NF)

Severe financial constraints and enormous reconstruction costs, combined with the UN military embargo, will prevent significant progress during at least the next few years on the multibillion-dollar task of reconstructing Iraq's military facilities and replacing equipment losses. Civilian reconstruction will preoccupy Iraq through the rest of the decade and, combined with

Tehran capitalized on its new respectability to achieve long-held diplomatic objectives. Iran, long isolated for its intransigence in the Iran-Iraq war and its support for terrorism, has greatly expanded or upgraded its diplomatic relations with several Arab and Western countries. Of particular importance to Iran was the restoration of diplomatic ties to the United Kingdom in September 1990, which in the following month led to the lifting of diplomatic sanctions placed on Iran by

himself isolated from the most influential Arab states, and even Baghdad's staunchest supporters during the crisis, Jordan and Yemen, have moved since February to put distance between themselves and Iraq and ingratiate themselves with the coalition.

Domestic Support. The war changed both Iran's and Iraq's domestic fortunes.

President Rafsanjani's deft management of Iranian policy during the war enjoyed widespread support and allowed him to consolidate his authority.

Although Iranian policy will continue to reflect the constantly shifting domestic power struggles in Tehran, Rafsanjani's domestic strength should allow him greater flexibility in his conduct of foreign policy. (CONF)

Although Saddam skillfully and brutally maintained his position in the face of extensive revolts among Iraqi Kurds and Shias in March and his regime is intact, he remains deeply concerned with ensuring his regime's political survival. Unrest continues in southern Iraq and Kurdistan, and,

tight security measures in Baghdad include numerous roadblocks and frequent neighborhood raids to ferret out Shia rebels and their supporters. As a consequence of this unrest, we believe Saddam will be preoccupied with maintaining domestic order this year, and much of his foreign policy will be driven by the need to obtain benefits—such as the lifting of economic sanctions—that will assuage domestic anger. (S, NENG, OC)

Implications of the New Balance

Both Tehran and Baghdad are adapting their policies to the changes wrought by the Gulf war. Saddam almost certainly has not abandoned his long-term goal of achieving preeminence in the Persian Gulf and the wider Arab world, but the damage inflicted on Iraqi

the European Community. Since the Iraqi invasion of Kuwait, Iran has restored diplomatic relations with Iraq, Saudi Arabia, and other Arab states, regained the right to send pilgrims on the hajj to Mecca, and opened an interests section in Egypt. Tehran now can deal directly with all the major participants in Persian Gulf affairs, with the exception of the United States.

Iraq, by comparison, has seen its diplomatic circle of friends shrink. It has broken relations with the United States, United Kingdom, France, and Saudi Arabia, among others, and its erstwhile patron, the Soviet Union, has been unwilling to support Iraq in the United Nations. As a result, Iraq was forced to submit to humiliating UN resolutions to obtain a cease-fire with coalition forces. Saddam has found

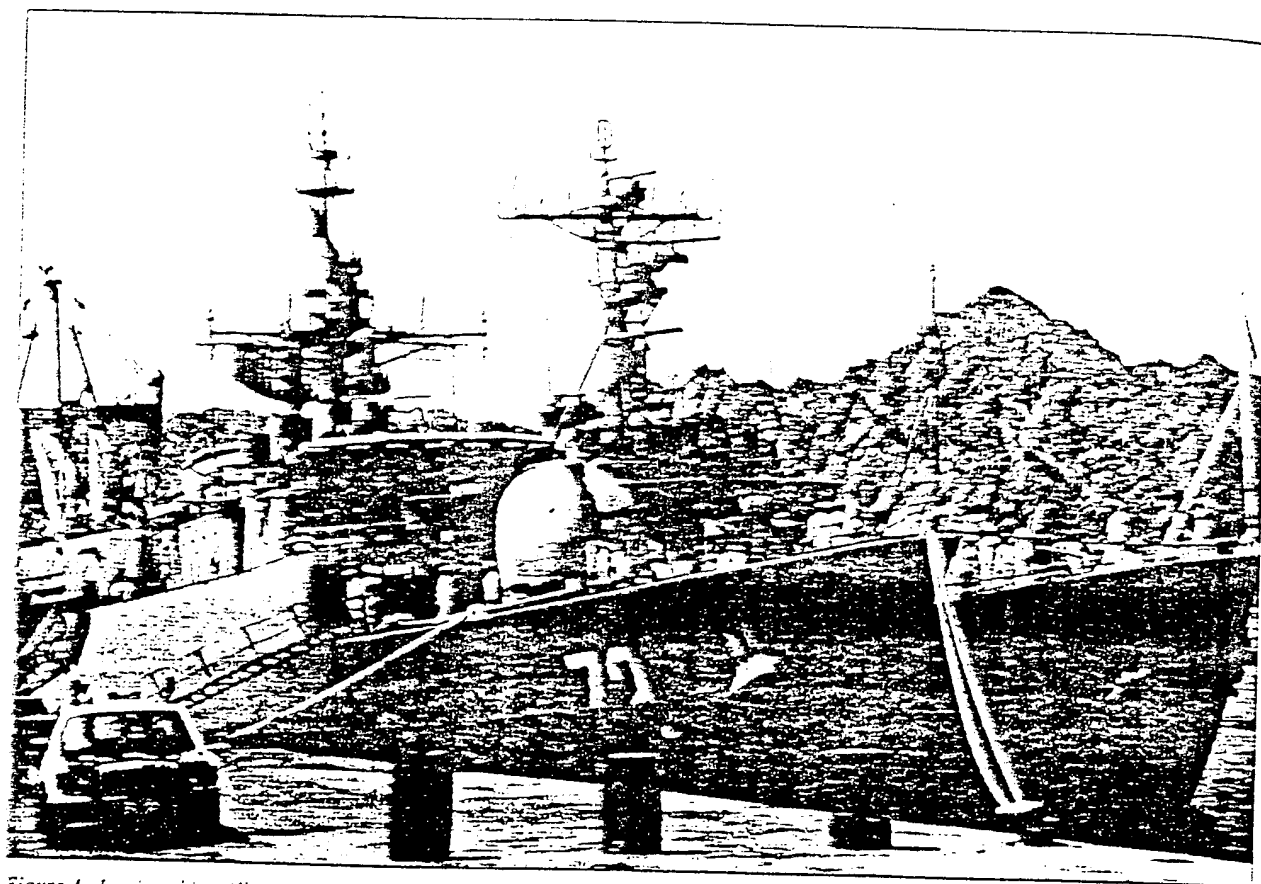


Figure 4. Iranian ships Alborz (FFG-72) and Bayandor (PG-31) seen visiting Oman in early 1990, one of two port visits to the Gulf states since the end of the Iran-Iraq war.

capabilities has restricted his policy choices. Tehran has greater freedom of action to shape a regional order that favors Iran and to establish its preeminence in the Gulf. Both countries' efforts to dominate the region and the Arab world will ensure that their policies will collide frequently, although the two countries' continued economic and military weakness may limit their competition in the near term.

Iran's Opportunity. Tehran almost certainly views Iraq's defeat as a historic opportunity for Iran to regain its role as the leading power in the Persian Gulf, a position it enjoyed in the mid-1970s. The *Tehran Times* maintained in March 1991 that any regional security arrangement that does not acknowledge Iran as the strongest Gulf country is "doomed to fail."

Given its military and economic shortcomings, Tehran is most likely to capitalize on its growing political influence and to employ primarily a diplomatic strategy to consolidate its renewed regional prominence. Rafsanjani outlined such a strategy in a sermon he presented on 3 March. His program included several points:

- Fostering regional unity in the Gulf based on Islam and shared interests in stability and economic development.

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- Increased cooperation among Gulf countries in economic fields—particularly oil prices—the peaceful resolution of disputes, and noninterference in internal affairs.

- Resistance to any effort by either a regional country or the United States to impose hegemony on the region—although Iran, as the “focal point of the region and standard bearer of Islam,” clearly would be the leading regional power. (C, NE)

We believe Rafsanjani perceives two main obstacles to his effort to establish Iran's regional ascendancy: the United States and Iraq. In overcoming US opposition, Rafsanjani's public comments suggest he expects Iranian efforts to promote regional order will eventually obviate US interest in maintaining a military force in the Gulf.

the Iranian press suggest Tehran is banking on US public opinion and diplomatic support from the Soviets and, to a lesser extent, from the West Europeans to prevent a greatly expanded US presence in the region. (S, NE)

The perception in Tehran appears to be that Iraq under Saddam Husayn represents both a continuing challenge to Iran's bid for regional leadership and an inherently disruptive force in the Persian Gulf.

In our judgment, Iranian leaders perceive these problems to be threefold:

- *Iraqi expansionism.* Citing the parallel experiences of Iraq's invasion of Iran in 1980 and its invasion of Kuwait in 1990, Rafsanjani has publicly identified the Iraqi Ba'th Party's “spirit of expansion and aggression” as a root cause of disunity and instability in the Persian Gulf.

- *Domestic instability.*

the Iraqi revolt threatened to turn Iraq into another Lebanon that would affect the region for years.

Iran's oft-stated concern that such instability increases the likelihood of a prolonged Western—especially US—military presence in the region.

- *Ideology.*

Tehran views the Ba'th Party's Pan-Arab platform as a challenge to non-Arab Iran's emphasis on Islam as a unifying principle for the Persian Gulf countries. We believe Iran is eager to avoid the formation of an anti-Iranian bloc based on Arab solidarity similar to the one it faced during the Iran-Iraq war. (C, NE, OC)

Tehran's focus on Saddam's regime in Baghdad as the source of its troubles in the Persian Gulf has led it to embrace the late Ayatollah Khomeini's unrealized aim of ousting Saddam Husayn from power. Top Iranian leaders appear to agree on this issue. Supreme Leader Khamenei and the leaders of the legislature and judiciary have all issued calls for Saddam's removal. Rafsanjani has been more circumspect in public—he has denied calling for Saddam's resignation—

1.5(c)(d)
1.6(d)(1)(6)

Unlike Khomeini, the current clerical regime probably recognizes the limits on its ability to bring down the Iraqi Ba'thists, including:

- *No war option.* Iranian clerics and the general public are weary of war and supported Tehran's policy of neutrality during Operation Desert Storm. The government almost certainly does not want to squander this support by deliberately seeking war with Iraq. Iran demonstrated restraint in March when, during the Shia revolt in Iraq, it limited its response to Saddam's destruction of Shia holy shrines and the arrest of Grand Ayatollah Khu'i to diplomatic and religious protests.

- *No dismemberment of Iraq.* Throughout the Gulf crisis Iran has consistently opposed assaults on Iraq's territorial integrity, even criticizing Western

efforts to establish protected camps for Iraqi Kurds in northern Iraq. Concern about the regional implications of the "Lebanonization" of Iraq—and the implications for Iran's own minorities—almost certainly ensure that Tehran will not promote the founding of an independent Shia or Kurdish state on Iraqi territory.

- *Installing a Shia Islamic republic in Baghdad not an immediate goal.*

[REDACTED] Iranian leaders may not have reached a consensus on this issue. Khamenei has publicly called for an "Islamic and popular" government in Iraq, although we believe he would be satisfied with Saddam's ouster. (S, NF, NC, OC)

Iran's recognition of its limited capabilities, as well as the failure of the Shia and Kurdish revolts, is leading Tehran to work in concert with other states in the region to contain Iraqi ambitions and eventually force Saddam out. Press reporting indicates that Iraq and regional security were on the agenda of Rafsanjani's talks in Syria and Turkey in April and Foreign Minister Velayati's discussions in Saudi Arabia the same month.

[REDACTED] Iran's ability to cooperate with other Gulf states will be hobbled by the Gulf Arabs' continuing suspicions of Iranian intentions. (S, NF, OC)

Domestic factional politics in Iran will limit Tehran's ability to conduct an effective regional policy. Domestic sensitivities may restrict the degree to which Tehran can cooperate with—or even accommodate—the policies of the major coalition partners.

[REDACTED] the public statements of Rafsanjani and Khamenei

[REDACTED] suggest that these two decisionmakers hold divergent views on how much support to give to Iraqi Shia rebels.

[REDACTED] These differences

[REDACTED] are typical of the constant friction between the two leaders over the past decade and are not enough to threaten the regime's unity. In the past Rafsanjani and Khamenei have always compromised, but, if they should fail to do so now, it would threaten the coherence of Iranian policy. In a worst case, a lack of compromise at the top might provide openings to Rafsanjani and Khamenei's hardline opponents to criticize their handling of foreign policy and ultimately circumscribe their room to maneuver. (S, NF, NC, OC)

The View From Baghdad. Baghdad probably will temporarily subordinate its regional ambitions and try to maintain stable relations with Iran while it rebuilds Iraq's shattered military and economy. The new regional military balance has reduced Baghdad's ability to restrain Tehran's regional ambitions or stop it from meddling in Iraq's domestic affairs. Iraq's immediate need to devote its resources to reconstruction, reestablishing domestic stability, securing its borders, and repairing severed political and economic ties to its neighbors and the West restricts its room for maneuver. Saddam is likely to employ various tactics—including political accommodation, cooperation, and diplomatic pressure—to keep Iran at bay while he works to tip the balance back in his favor. (S, NF, NC, OC)

Despite Iraq's weakness, Saddam's old ambitions remain, and he almost certainly seeks revenge for his defeat in Kuwait. He has not abandoned his search for regional supremacy and eventual domination of Gulf, Arab, and OPEC affairs, in our judgment. Baghdad is increasingly concerned that Tehran's growing ties to the Arab Gulf states will lead to a regional security arrangement that excludes Baghdad. Recent Iraqi press articles assert that the country's remaining military power, abundant oil reserves, and rich national heritage and Pan-Arab spirit entitle Iraq to an important regional role. Iraq's desire to gain



Figure 5. Iraqi President Saddam Husayn (U)

more secure access to the sea—one of the reasons Saddam invaded Kuwait—remains an important national ambition and will continue to make the status of the Shatt al Arab a point of contention. (S) (F)

Iran's opportunity to regain regional primacy is Saddam's worst fear. The emerging new balance of power is reminiscent of the mid-1970s, when Iraq, relatively weak, isolated, and beset by a Kurdish rebellion, was forced to sign the Algiers accord with Iran, giving Tehran joint sovereignty over the Shatt al Arab waterway and ending support for each other's opposition groups. The Iraqi victory in the Iran-Iraq war, although costly, allowed Saddam to claim that he had restored Iraq's sovereignty over the Shatt. This gain was relinquished during the Gulf war, and once again Iraq finds itself at a disadvantage with Iran and with few bargaining chips available to settle bilateral disputes to its satisfaction. To help regain some of its lost leverage, Baghdad is trying to reengage the UN Secretary General and the UN Iran-Iraq Military Observation Group in monitoring the cease-fire, investigating alleged Iranian cease-fire violations, and settling outstanding bilateral disputes. (S) (F)

Iraqi propagandists continue to exploit deep-rooted Iraqi fears of Persian domination to rally support for the regime. Saddam probably hopes that emphasizing

the Iranian threat will help him maintain the loyalty of the military leadership and the country's minority Arab Sunni Muslim population, whose interests almost certainly would be gravely threatened if an Iranian-sponsored rebellion by Iraq's majority Shia population succeeded. The government-controlled press routinely charges Tehran with plotting to "swallow up" Iraq.

[REDACTED] Baghdad almost certainly will try to play the Iranian card with Gulf Arab and Western states in hopes of convincing them that a resurgent Iran and the specter of a Shia-dominated Iraq pose a greater threat to regional security than does Iraq. (S) (F)

1.5 (c) (d)
1.6 (d) (c) (e)

The outcome of the Gulf war and the Iraqi rebellions almost certainly have reinforced Saddam's—and many of his advisers'—long-held belief that Iraq is surrounded by enemies intent on its destruction. Any likely successor to Saddam, military or Ba'thist, is likely to share his vision of Iraq's regional destiny and will seek to quickly rebuild the country's political and military might to face real and imagined threats. The Sunni Muslims who most likely would dominate a post-Saddam government would probably carry out his Pan-Arab and nationalist agenda to meet the long-term challenges of forging national unity, securing Iraq's long border with Iran, and surmounting the country's strategic and economic vulnerabilities in the Gulf. They probably would not alter significantly Iraq's political system to avoid being submerged in a Shia-dominated political culture susceptible to Iranian, Syrian, or other foreign meddling and to avoid being perceived as acting under the influence of an outside power. (S) (F)

Saddam's preeminent goal almost certainly will be to guarantee his survival as leader of Iraq. His near-term focus will be on reestablishing domestic stability, protecting Iraq's territorial integrity, and rebuilding ties to the Arab world and the international community. He probably will rely, as he has in the past, on a

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combination of tactical compromise and ruthless suppression to maintain domestic tranquility. He is likely to try to quickly reconstitute his border forces to secure Iraq's frontiers against subversion. The depletion of Iraq's military resources and the added difficulty of monitoring large numbers of refugees, deserters, and rebels along Iraq's borders will significantly complicate the task. (S, NF)

Baghdad probably will try to break out of its isolation and rebuild bridges to the Arab world and the West to gain humanitarian and reconstruction aid and to forestall the improvement of Iranian ties to the Gulf states at Baghdad's expense. Of primary concern will be improving relations with Turkey and Saudi Arabia, where Iraq's two major oil outlets are located. Saddam almost certainly realizes that many countries will be unwilling to normalize ties and participate in reconstruction while he remains in power. He probably hopes that the lure of postwar commercial opportunities in Iraq and his promises to share power and enact broad political reforms will help overcome such reluctance. In addition, Baghdad probably will not abandon its use of threats and strong-arm tactics in foreign relations. (S, NF)

Tensions Along the Border. Tensions along the Iran-Iraq border are likely to increase considerably over the near term as Tehran and Baghdad pursue conflicting policies. Iran's meddling in Iraq's internal turmoil, its unwillingness to return Iraqi aircraft, and its continued holding of Iraqi prisoners of war have eroded the facade of friendship established during the Gulf crisis. Tensions along the border probably will simmer as both sides jockey for advantage. (S, NF)

Limited military incursions will become increasingly more likely. Tehran may limit its direct participation in insurgent attacks to advisers, fearing greater involvement would scare its Gulf neighbors and endanger Iran's chances of participating in future Gulf security arrangements. In any case, radical elements of the Revolutionary Guard, deployed along the Iraqi border, probably will support small dissident operations with or without authorization from Tehran. Baghdad probably will respond to Iran's actions and policies, and it will continue to defend its interests using any means at its disposal, including military

force. Mojahedin-e Khalq operations and limited Iraqi attacks along the Iranian border as well as Iraq's efforts to seal its border against rebel infiltrations will bring increasing numbers of Baghdad's forces back to the Iranian border, in close proximity to Tehran's troops. (S, NF)

Prospects for War. Despite the deterioration in relations between Iran and Iraq since the end of Operation Desert Storm, we doubt that, for the near term, either Iran or Iraq will launch deliberate large-scale military operations against the other. Neither has a serious offensive military capability at this time, and both the Iraqi and Iranian economies would have a difficult time sustaining a major conflict. (S, NF)

The danger of an accidental war—a fairly minor incident between Iran and Iraq that escalates out of control—has increased since the end of the Gulf war and is likely to be a chronic threat to stability in the region. Baghdad almost certainly will resort to its historic practice of intimidation. Tehran, with its regained initiative, probably will not submit easily to threats or coercion. The ill-planned use of strong-arm tactics could backfire, and, given the numerous outstanding disputes, the risk of miscalculation will be high. Several issues could spark such a crisis, including:

- **Demarcation of the Shatt al Arab.** The end of the Iran-Iraq rapprochement makes a formal settlement of this dispute less likely in the near term. Clashes could erupt should either side attempt to enforce its claims along the waterway.
- **Support for insurgents.** Iranian Revolutionary Guard troops already have raided Iranian dissidents based in Iraq, and continued Iranian support for Shia rebels could provoke frustrated Iraqi commanders into hot pursuit against rebel positions across the Iranian border. Alternatively, should serious unrest break out in Baghdad, Tehran might calculate that Iranian military intervention would tip the balance in favor of the rebels and yield an easy victory.

An Alternative Outcome: Iran-Iraq Detente

We believe relations between Tehran and Baghdad will remain strained for the foreseeable future, but a less likely scenario can be envisioned in which relations between the two rivals could become considerably more cooperative. Saddam's ouster or the perception of a common threat from the coalition powers are two factors that might increase the likelihood of such an outcome. (S)

The short-lived rapprochement between Iran and Iraq during the Gulf crisis demonstrated that both countries are capable of setting aside their differences to achieve specific policy objectives. Moreover, both countries share certain interests that could form the basis for cooperation. These include:

- Oil Policy. Both Iran and Iraq—with massive reconstruction needs and severe financial problems—favor higher oil prices. Before the Iraqi invasion of Kuwait, Iran endorsed Iraq's efforts to press Kuwait and the United Arab Emirates to cut oil production and raise oil prices.*
- Opposition to Western, particularly US, influence in the Persian Gulf. Although Iran and Iraq view each other as rivals for primacy in the region, they almost certainly recognize that US influence—and in particular a US presence—in the region could frustrate their efforts to achieve hegemony. They might find it expedient to form an alliance to counter US influence, especially if they perceive postwar security arrangements in the Persian Gulf to be a US-backed cordon aimed at excluding them from exercising influence in the region.*
- Opposition to Israel. Both states view opposition to Israel as a fundamental principle of their foreign policy. Following Iraqi missile attacks on Israel*

during Operation Desert Storm, Iranian officials publicly acknowledged that Israeli retaliation would force Tehran to reevaluate its policy of neutrality, and particularly aggressive Israeli military actions—perhaps preemptive strikes on Arab states rather than Palestinian camps—could cause Iran and Iraq to work together.

- Opposition to monarchy. Both Iran and Iraq oppose monarchies on ideological grounds and consider those in the region to be antiquated. Both countries maintain diplomatic relations with some of the Arab monarchies and would be more likely to act jointly in opposition to the monarchies if they perceived a real threat to their national interests, such as a deliberate Gulf Arab policy of driving down oil prices. (S)*

Saddam's replacement by a more pluralistic regime in Baghdad could significantly alter the relationship between Iran and Iraq. We believe much of Tehran's distrust of Iraq is focused on Saddam and the Ba'th Party, and it might ease should a more representative regime come to power in Baghdad. Rafsanjani has stated that, if Baghdad broadened popular—especially Shia—participation in the government, Iran would cooperate with Iraqi reconstruction efforts. Even under this scenario we would expect Iranian ambitions; Iraq's Arab identity, and ideological differences to prevent the emergence of a Tehran-Baghdad alliance, although tensions between the two probably would decrease. Even if a successor Iraqi government were dominated by Shias, it probably would be wary of domination by Iran. Most Iraqi Shias do not subscribe to Iran's brand of politicized Islam. (S)

- **Reparations.** Should Tehran believe its demands for compensation for the Iran-Iraq war are being ignored, it might try to seize valuable bits of Iraqi territory—the Majnun oilfield in southern Iraq would be especially tempting—to force Baghdad to pay reparations. Iran occupied much of the fields during the period 1983-87. (S, NF)

During the next several years some of the constraints on Iranian and Iraqi behavior are likely to diminish. If Saddam consolidates his domestic position and economic sanctions are eased, Iraq almost certainly will become more adventurous. In several years Iran will have integrated significant numbers of new Soviet equipment into its military inventory, increasing its offensive capability. As these constraints are reduced and the political rivalry between Iran and Iraq continues, the danger of war between the two countries will grow. (S, NF)

Impact on Regional and Western Interests

The reemergence of the Iran-Iraq rivalry may yield short-term tactical advantages to other countries in the region. Many countries may welcome the tension as a way of diverting Iranian and Iraqi energies from regional adventures. Over the long term, the costs of continued instability in the Persian Gulf are likely to be onerous. (S, NF)

To the extent that the Iran-Iraq rivalry distracts them from meddling in the affairs of the Gulf states, the Gulf Arabs may find the renewed tensions tolerable. Both Iran and Iraq are likely to court the Gulf states to gain at the other's expense, providing the Gulf Arabs greater room to maneuver.

[REDACTED] (S, NF)

As long as Baghdad and Tehran try to gain advantage over each other by courting the Gulf Arabs, the Iran-Iraq rivalry may reduce the foreign threat to domestic stability in the Gulf states. Over time, however, the danger will grow that either Iran or Iraq will tire of the Gulf Arabs' neutrality and may seek to influence their policies through the threat or employment of subversion or terrorism. Should conditions deteriorate

significantly, for example, Tehran might decide that the best way to gain an ally in the Gulf is to topple one of the conservative monarchies and install a Shia or Sunni fundamentalist regime in its place. (S, NF)

The rivalry between Tehran and Baghdad will be a powerful stimulus for continued cooperation between Iran and Iraq's main Arab rival, Syria. Both Tehran and Damascus fear Iraqi expansionism, and, as long as Saddam Husayn remains in control of Iraq, both countries are likely to cooperate to contain Iraqi ambitions. The value of this alliance will diminish should Saddam fall from power. In that case, Syrian antipathy toward Saddam will be replaced by concerns that Iranian influence in Iraq—and that of Islamic fundamentalists—will grow to threaten Syrian interests. (S, NF)

Egyptian interests will be less directly affected by Iran-Iraq tensions than those of Syria or the Gulf states. To the extent that Tehran and Baghdad are focused on their bilateral competition, the postwar Gulf may provide opportunities for Egypt to pose as a more stable, less threatening alternative to Iran and Iraq as a partner to the Gulf states. Cairo may have difficulty exploiting these opportunities should Iran-Iraq tensions lead to complacency in Gulf capitals about the need to cultivate close relations with a regional power capable of assisting the Gulf states to resist Iranian or Iraqi pressure. (S, NF)

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1.6(d)(1)(6)

[REDACTED] (S, NF)

Over the long term, the Iran-Iraq rivalry poses a serious threat to the stability of the region. The continued arms race between Tehran and Baghdad

almost certainly will make efforts to establish a regional arms control program especially difficult. As each country rebuilds its arsenal—especially missiles and unconventional weapons—it will increase the insecurity in the region and spur proliferation of such weapons. As long as the disputes between Iran and Iraq are unresolved, there is a danger that one or the other might provoke a conflict aimed at drawing in outside powers in hopes they would bring pressure to bear to establish a lasting settlement. Renewed war would once again threaten to polarize the Gulf states and endanger the security of Western oil supplies.

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